

STATE CORPORATION COMMISSION

DOCUMENT CONTROL

AT RICHMOND, JANUARY 15, 2008

PETITION OF

2008 JAN 15 A 10:08

SPECTRA ENERGY VIRGINIA PIPELINE COMPANY,  
SPECTRA ENERGY EARLY GROVE COMPANY,  
SPECTRA ENERGY CORP,  
SALTVILLE GAS STORAGE COMPANY L.L.C.,  
EAST TENNESSEE NATURAL GAS, L.L.C.,  
SPECTRA ENERGY TRANSMISSION, LLC,  
and  
SPECTRA ENERGY PARTNERS, LP

CASE NO. PUE-2007-00106

For cancellation of certificates of public convenience and necessity, authority to withdraw tariffs and operation and maintenance manuals, and termination of requirements to file other affiliate filings based upon approval of request filed for the Federal Energy Regulatory Commission to assume jurisdiction, and other related matters pursuant to Chapters 4, 5, and 10.1 of Title 56 of the Code of Virginia

ORDER FOR NOTICE AND COMMENT

On December 21, 2007, Spectra Energy Corp ("Spectra"),<sup>1</sup> Spectra Energy Virginia Pipeline Company ("Virginia Pipeline"),<sup>2</sup> Spectra Energy Early Grove Company ("Early Grove"),<sup>3</sup> Saltville Gas Storage Company L.L.C. ("Saltville"),<sup>4</sup> Spectra Energy Partners, LP

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<sup>1</sup> Spectra is a Delaware Corporation indirectly owning 100% of Spectra Energy Virginia Pipeline Company and Spectra Energy Early Grove Company.

<sup>2</sup> Virginia Pipeline is a Virginia natural gas utility regulated by the State Corporation Commission ("Commission"). Virginia Pipeline operates an intrastate pipeline and a storage facility.

<sup>3</sup> Early Grove is a Virginia natural gas utility regulated by the Commission. It operates a storage field located in Scott and Washington Counties, Virginia.

<sup>4</sup> Saltville is a Virginia limited liability company regulated by the Federal Energy Regulatory Commission ("FERC").

("Spectra Partners"),<sup>5</sup> and East Tennessee Natural Gas, L.L.C. ("East Tennessee")<sup>6</sup> (hereafter collectively referred to as the "petitioners"), filed a petition in both a public and confidential version with the Commission under the Utility Facilities Act, Chapter 10.1 of Title 56, Chapter 4 of Title 56, and Chapter 5, the Utility Transfers Act, of Title 56 of the Code of Virginia (the "Code"). Through a letter dated January 10, 2008, filed with the Commission, the petitioners supplemented their petition by clarifying that Spectra Energy Transmission, LLC, a Delaware limited liability company and direct parent of Virginia Pipeline and Early Grove, is also one of the petitioners. This letter advised that the identification of Spectra Energy Transmission, LLC, as a petitioner did not otherwise change the process for transfer and sale set out in the petition.<sup>7</sup>

In their petition, among other things, the petitioners request authority to permit East Tennessee to acquire and operate the P-25 Pipeline Facility<sup>8</sup> now operated by Virginia Pipeline. According to the petition, this transaction will be accomplished through an asset sale of the P-25 Pipeline Facility to East Tennessee pursuant to a confidential Asset Purchase Agreement that the petitioners have filed with the Commission under seal. As proposed by the petitioners, the Asset Purchase Agreement will become effective once the FERC and Commission approvals are received. Under the terms of the Asset Purchase Agreement, East Tennessee will pay Spectra

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<sup>5</sup> Spectra Partners is a Delaware limited partnership which indirectly owns a 100% interest in East Tennessee Natural Gas, L.L.C.. Spectra is the majority shareholder in Spectra Partners.

<sup>6</sup> East Tennessee is a Tennessee limited liability company regulated by the FERC.

<sup>7</sup> Hereafter, when referring to petitioners in this Order, such reference shall include Spectra Energy Transmission, LLC, as well as the other previously identified petitioners.

<sup>8</sup> The P-25 Pipeline Facility includes approximately seventy-two miles of intrastate transmission pipeline operated by Virginia Pipeline under Certificates of Public Convenience and Necessity issued by the Commission. The P-25 Pipeline Facility extends from Saltville, Virginia, to Radford, Virginia, and interconnects with East Tennessee at Radford.

approximately \$25,300,000 for the P-25 Pipeline Facility. Payment will be made primarily with shares of East Tennessee's parent, Spectra Partners.

The petition explains that upon receipt of the necessary approval and completion of the asset sale transaction, the P-25 Pipeline Facility will be incorporated into and will be made a part of East Tennessee's system. Service will be provided to the P-25 Pipeline Facility's only remaining customer, Atmos Energy Corporation ("Atmos Energy" or "Atmos"), pursuant to East Tennessee's FERC Gas Tariff, Second Revised Volume No. 1. According to the petition, the other current customer of the P-25 Pipeline Facility is East Tennessee itself, whose contract will be terminated upon completion of the proposed asset purchase transaction.

The petition represents that Atmos Energy has executed a new letter agreement with East Tennessee whereby Atmos agrees to not oppose the proposed transaction and will continue to pay rates at levels comparable to those found in the current Commission-regulated tariffs for the remaining term of the current Virginia State Corporation Commission contract through April 30, 2014.

The petition identifies the following as benefits that should inure to Atmos after the asset purchase transaction is completed: (i) East Tennessee will grandfather the customer's existing rates at the current Commission tariff rate level for the remaining term of Atmos Energy's contract through April 30, 2014; (ii) Atmos will be given a contract under East Tennessee's Rate Schedule FT-A, allowing Atmos to access secondary firm capacity rights on the entire East Tennessee mainline system; (iii) Atmos will benefit from the open access, nondiscriminatory access provisions under East Tennessee's FERC Gas Tariff, including automatic contract rollover rights at the end of any contract; and (iv) Atmos will be able to take advantage of East

Tennessee's tariff provisions, including capacity release rights that allow customers to optimize their contracted capacity levels from time to time.

Additionally, the petition requests authority to permit Saltville to acquire and operate the Early Grove Facility, a depleted reservoir storage field located in Scott and Washington Counties, Virginia.<sup>9</sup> Early Grove currently operates the Early Grove Facility under a Hinshaw exemption and is subject to regulation by the Commission, as well as to regulation by the FERC in the provision of certain intrastate and interstate storage services, respectively. Saltville proposes to acquire and operate the Early Grove Facility through an intercompany merger with Early Grove.

Further, the petition requests authority to permit Saltville to acquire and operate the Virginia Storage Facility<sup>10</sup> through an intercompany merger with Virginia Pipeline at the same time the merger with Early Grove takes place. All three companies are wholly owned affiliates of Spectra. Under the terms of a confidential Merger Agreement attached to the petition and filed under seal, Saltville will acquire the member interests in Early Grove and Virginia Pipeline at the Companies' net book value as of the time of acquisition, excluding the net book value of the P-25 Pipeline Facility. Upon completion of this transaction, according to the petition, the Early Grove Facility and Virginia Storage Facility will become part of Saltville's integrated system, and services will be provided under Saltville's FERC Gas Tariff, Original Volume No. 1.

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<sup>9</sup> The Early Grove Facility consists of 29 wells, of which 22 are active, and seven are monitoring wells. This Facility includes approximately 16 miles of four-inch diameter pipeline looped with approximately five miles of six-inch diameter pipeline, connecting the facility to the main line of East Tennessee, as well as to two 600 horsepower compressor units.

<sup>10</sup> The Virginia Storage Facility is a natural gas storage facility, encompassing Virginia Pipeline, located in Smyth and Washington Counties, Virginia, near Saltville's existing facilities. The Virginia Storage Facility operates under a Hinshaw exemption and is subject to regulation by the Commission. The Virginia Storage Facility also operates under a blanket certificate issued by the FERC. The Virginia Storage Facility includes approximately 6.9 miles of eight-inch diameter piping connecting the storage cavern to East Tennessee near Chilhowie, Virginia.

According to the petition, the existing customers of the Early Grove Facility and the Virginia Storage Facility will execute new service agreements with Saltville under Saltville's Firm Storage Rate Schedule FSS. The petition represents that these new agreements will provide customers with the same contract quantities (Maximum Storage Quantity, Maximum Daily Withdrawal Quantity, and Maximum Daily Injection Quantity) that they currently have under their Early Grove Facility and Virginia Storage Facility contracts. The petitioners maintain that these customers will be given separate negotiated rate agreements stating that they will pay only the rates currently paid for service under the existing Commission-regulated tariffs for the remaining term of their current contracts for such service. According to the petition, all of the former Early Grove and Virginia Storage Facility customers have now executed letter agreements whereby, among other things, each of these customers has agreed not to oppose the transactions described in the petition.

The petition also requests the cancellation of the Certificates of Public Convenience and Necessity issued by the Commission to Early Grove and Virginia Pipeline, relief from various filing and other regulatory requirements imposed by various Commission Orders identified at pages 14 through 18 of the public version of the petition, as well as the dismissal of various Commission proceedings discussed at pages 16 through 18 of the public version of the petition. Additionally, the petitioners request relief from any further monitoring or remedial actions imposed by the Commission's Order of Settlement entered in Case No. PUE-2002-00413, as well as the suspension of any outstanding fine amounts related to the remediation work performed or to be performed in the future under that Order.<sup>11</sup>

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<sup>11</sup> See Commonwealth of Virginia, ex rel. State Corporation Commission v. Virginia Gas Pipeline Company, Case No. PUE-2002-00413, 2002 S.C.C. Ann. Rep. 587 (Oct. 7, 2002 Order of Settlement).

Finally, the petition seeks authority to withdraw Early Grove's and Virginia Pipeline's tariffs and operation and maintenance manuals now on file with the Commission. The petitioners request approval of the regulatory actions outlined in the petition as well as such other approvals or relief that may be necessary under the law and Commission rules, regulations, and guidelines to effectuate the transactions proposed in the petition.

NOW THE COMMISSION, upon consideration of the petition, is of the opinion and finds that the time for investigation of the complex issues presented by the petition under Chapters 4 and 5 of Title 56 of the Code should be extended as permitted by these statutes; that public notice of the petition should be affected by mailing a copy of this Order to all of Early Grove and Virginia Pipeline's customers as well as to the local officials for counties, cities, and towns where Early Grove's and Virginia Pipeline's facilities certificated by this Commission are located; that interested persons should have the opportunity to comment and request a hearing on the petition; that the Commission Staff should investigate the petition and file a report or testimony as appropriate in this docket, setting out the Staff's conclusions and recommendations on the petitioners' proposals; and that the petitioners should have the opportunity to file a response or testimony, as appropriate, in response to the Staff's report or testimony and in response to the comments or requests for hearing of interested persons.

Accordingly, IT IS ORDERED THAT:

(1) The time in which to investigate the transactions set out in the petition under Chapter 4 of Title 56 of the Code of Virginia shall be extended to March 20, 2008, as permitted by § 56-77 of the Code.

(2) The time in which to investigate the transactions set out in the petition for which relief is sought for a change in control of a public utility under Chapter 5 of Title 56 of the Code shall be extended to June 18, 2008, as permitted by § 56-88.1 of the Code.

(3) The public version of the petition and supporting exhibits shall be made available for public inspection, Monday through Friday, 8:15 a.m. to 5:00 p.m., in the Document Control Center of the State Corporation Commission located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219. Copies of the public version of the petition and supporting exhibits may be downloaded from the Commission's website at <http://www.scc.virginia.gov/caseinfo.htm>, or may be obtained at no charge from the petitioners' counsel Christine M. Pallenik, Associate General Counsel, Spectra Energy Corp, P.O. Box 1642, Houston, Texas 77251-1642, and JoAnne L. Nolte, Esquire, The Conrad Firm, 1520 West Main Street, Suite 204, Richmond, Virginia 23220.

(4) On or before January 22, 2008, the petitioners shall mail, by first class mail, postage prepaid, a copy of this Order to all customers currently served by Virginia Pipeline and Early Grove.

(5) On or before January 22, 2008, the petitioners shall serve a copy of the public version of the petition and exhibits, together with a copy of this Order, on the chairman of the board of supervisors and the county attorney of each county and on the mayor or manager of every city and town (or upon equivalent officials in counties, cities, and towns having alternate forms of government) in which Virginia Pipeline and Early Grove offer service through the natural gas pipeline and natural gas storage facilities that are the subject of the captioned petition. Service shall be made by first-class mail or personal delivery to the customary place of business or the residence of the person served.

(6) On or before February 28, 2008, the petitioners shall file with the Clerk of the Commission proof of the notice and service required herein.

(7) On or before February 11, 2008, any interested person may submit written comments or requests for hearing on the petition and supporting exhibits by filing an original and fifteen (15) copies of such comments or requests with the Clerk of the State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Any request for hearing shall state with specificity why the issues raised in the request for hearing cannot be adequately addressed in written comments. If no sufficient request for hearing is received, the Commission may consider the relief requested by the petition based upon the papers filed herein without convening a hearing at which oral testimony is received. Interested persons shall refer in their comments or requests for hearing to Case No. PUE-2007-00106 and shall serve a copy of such comments and requests upon counsel for the petitioners at the addresses set forth in Ordering Paragraph (3) above.

(8) Interested persons desiring to submit comments electronically may do so on or before February 11, 2008, by following the instructions available at the Commission's website: <http://www.scc.virginia.gov/caseinfo.htm>.

(9) On or before February 11, 2008, any person filing a request for hearing and expecting to participate as a respondent in any hearing that may be scheduled in this matter shall file an original and fifteen (15) copies of a notice of participation as required by 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 et seq. All notices of participation shall be filed with the Clerk of the State Corporation Commission at the address set forth in Ordering Paragraph (7) above. Copies of any notice of participation shall refer to Case



No. PUE-2007-00106 and shall be served on the counsel for the petitioners at the addresses set forth in Ordering Paragraph (3) of this Order.

(10) On or before February 19, 2008, the Staff shall investigate the proposals set out in the petition, shall present its findings and recommendations in a report, or testimony if appropriate, filed with the Clerk of the Commission, and shall promptly send a copy of such report or testimony to counsel for the petitioners and each respondent.

(11) On or before February 26, 2008, the Petitioners shall file with the Clerk of the Commission at the address set out in Ordering Paragraph (7) herein an original and fifteen (15) copies of any response or testimony if appropriate, referring to Case No. PUE-2007-00106, that the petitioners expect to introduce in rebuttal to the report or testimony of Staff and the comments and requests for hearing of any interested parties. On or before February 26, 2008, the petitioners shall serve a copy of such response or rebuttal testimony upon the Staff and each respondent.

(12) The petitioners and each respondent shall respond to interrogatories or requests for the production of documents and things and data requests within five (5) business days after the receipt of the same. Except as modified above, discovery shall be in accordance with Part IV of the Commission's Rules of Practice and Procedure.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Christine M. Pallenik, Associate General Counsel, Spectra Energy Corp, P.O. Box 1642,  
Houston, Texas 77251-1642; JoAnne L. Nolte, Esquire, The Conrad Firm, 1520 West Main  
Street, Suite 204, Richmond, Virginia 23220; Byron E. Coy, Jr., Director, Eastern Region,  
Pipeline and Hazardous Materials Safety Administration, 409 Third Street, S.W., Suite 300,  
Washington, D.C. 20024; C. Meade Browder, Jr., Senior Assistant Attorney General, Division of

Consumer Counsel, Office of Attorney General, 900 East Main Street, 2nd Floor, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Public Utility Accounting, Energy Regulation, Utility and Railroad Safety, Economics and Finance, and Public Service Taxation.